

**CALENDAR ITEM  
C61**

A 17

S 5

12/16/02  
PRC 2839.1  
M. Hamilton

**CONSIDER APPROVAL OF THE AMENDMENT OF  
GAS STORAGE LEASE PRC 2839.1  
MCDONALD ISLAND GAS STORAGE FACILITY,  
SAN JOAQUIN COUNTY**

**OPERATOR:**

Pacific Gas and Electric Company  
Attn.: Mr. Loren Loo  
77 Beale Street  
San Francisco, CA 94105

**AREA, LAND TYPE, AND LOCATION:**

Sovereign State lands underlying Whiskey Slough on McDonald Island, located about 10 miles west of the city of Stockton in San Joaquin County.

**BACKGROUND:**

On April 4, 1940, the California State Lands Commission (Commission) and Standard Oil Company of California entered into Compensatory Agreement E-412 dated March 1, 1940, to compensate the State for gas withdrawn from sovereign State lands (Whiskey Slough) located within the McDonald Island Gas Field (Exhibit A, attached hereto). In March 1958, after producing over 150 billion cubic feet of natural gas, the field was shut-in and no more gas originally in place was produced.

On March 17, 1960, through Commission approved assignments, Pacific Gas and Electric Company (PG&E) acquired Agreement E-412. On February 27, 1962, the Commission issued Gas Storage Lease PRC 2839.1 to PG&E for a 15-year period commencing March 1, 1962. The lease covers only the Eocene series McDonald Island Sand (the gas storage reservoir) while Agreement E-412 covers the remaining strata.

CALENDAR ITEM NO. **C61** (CONT'D)

Under the terms of Lease PRC 2839.1, PG&E received the preferential right to renew Lease PRC 2839.1 for two successive 15-year periods upon such reasonable terms and conditions as may be prescribed by the State. Lease PRC 2839.1 was amended and renewed on August 19, 1977, for the first 15-year renewal term beginning March 1, 1977, and ending March 1, 1992. PG&E has requested the renewal of Lease PRC 2839.1 for the second 15-year period beginning March 1, 1992, and ending on March 1, 2007. Annual rental in the amount of \$226,627.25, as provided under the Amendment for the lease year March 1, 2002, through February 2003, has been paid by PG&E. The incremental gas fee, discussed in greater detail below, is set at \$0.06774 per Mcf for the March 1, 2002, through February 2003 lease year.

**PROPOSED LEASE TERMS:**

The Amendment (attached hereto as Exhibit B) provides for PG&E to make annual lease payments at a rate which is the higher of: (1) annual rental; or (2) an incremental gas fee based upon the total volume of gas injected into the storage reservoir during the lease year (March through February), multiplied by the State's percentage share of ownership of the reservoir. The annual rental and the incremental gas fee are based upon the previous year's rental and fees. Annual rental and gas fees are escalated at the rate of five percent (5%) per year. The annual rental and incremental gas fee for the lease year, March 1, 1992, through February 1993, has been determined to be \$176,708.92 and \$0.04158 per Mcf, respectively.

The Amendment provides that the State's ownership of the storage reservoir will be 12.193 percent (12.193%) for the period March 1, 1992, to September 1, 1995. Beginning September 1, 1995, the State's ownership of the storage reservoir will be reduced to 9.6 percent (9.6%). The reduction in the percentage of the State's ownership of the storage reservoir affects both the amount of annual rental under the lease and the calculation of the percentage of gas injected into the reservoir during the lease year that is attributable to the State lease for purposes of determining the incremental gas fee. In 1995, the year the reduction is implemented pursuant to the Amendment, annual rental on the lease drops from \$194,821.60 to \$161,059.76. As stated above, due to the effect of the five percent (5%) escalator, annual rental under the proposed amendment has risen to \$226,627.25 for the current lease year.

The Amendment will grant PG&E the right to renew the Lease for one additional 15-year period at the end of the current renewal term (March 1, 2007). The Amendment, if approved by the Commission, will be retroactive to March 1,

CALENDAR ITEM NO. **C61** (CONT'D)

1992. All other terms and conditions of the Lease will remain unchanged and in full force and effect.

**STATUTORY AND OTHER REFERENCES:**

- A. Gas Storage Lease PRC 2839.1, Paragraph 12 (amendment)

**OTHER PERTINENT INFORMATION:**

1. Since March 1992, PG&E has been making rental payments based on the escalating rental schedule of the previous lease, the same rental schedule currently proposed in the Amendment. These payments may be adjusted when a final determination has been made between PG&E and the Commission regarding the annual rental and incremental gas fee for the new lease. Currently, all rentals have been paid in full.
2. Based on data from a well drilled on private property adjacent to and west of the McDonald Island Gas Storage facility, PG&E and staff have determined that the storage reservoir is larger than originally estimated, which reduces the State's proportionate share of the storage facility. Therefore, both parties have agreed that beginning September 1, 1995, the State's ownership share of the storage reservoir will be reduced from 12.193 percent (12.193%) to 9.6 percent (9.6%). Since September 1, 1995, the rental payments that were made have been adjusted to reflect the reduced ownership share.
3. The California Department of General Services (CDGS) had expressed an interest in using the State's ownership share of the storage reservoir to store its gas. However, after reevaluating its needs, the CDGS has determined that it is not presently interested in using the State's ownership share of the storage reservoir.
4. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060(c)(3) and 15378.

CALENDAR ITEM NO. **C61** (CONT'D)

**EXHIBITS:**

- A. Location Map
- B. Amendment to Gas Storage Lease PRC 2839.1

**PERMIT STREAMLINING ACT DEADLINE:**

N/A

**RECOMMENDED ACTION:**

IT IS RECOMMENDED THAT THE COMMISSION:

**CEQA FINDINGS:**

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE REGULATIONS, SECTION 15378.

**AUTHORIZATION:**

1. CONSENT TO THE RENEWAL AND AMENDMENT OF GAS STORAGE LEASE PRC 2839.1; AND GRANT TO THE LESSEE THE RIGHT TO RENEW THE LEASE FOR ONE ADDITIONAL FIFTEEN (15) YEAR PERIOD, COMMENCING MARCH 1, 2007, UPON SUCH REASONABLE TERMS AND CONDITIONS AS THE STATE MAY PRESCRIBE; EACH AS MORE PARTICULARLY SET FORTH IN EXHIBIT B, ATTACHED.
2. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ALL DOCUMENTS NECESSARY OR CONVENIENT TO FULLY IMPLEMENT THE COMMISSION'S ACTION.